



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Number: **200843043**
Release Date: 10/24/2008

Date: July 29, 2008

U.I.L.: 501.06-01

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

Tax Years:

SE:T:EO:RA:T:2

Dear :

This is our final determination that you do not qualify for exemption from federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

You must file federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file. File the returns in accordance with their instructions, and do not send them to this office. Failure to file the returns timely may result in a penalty.

We will make this letter and our proposed adverse determination letter available for public inspection under section 6110 of the Code, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at

1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely yours,

Robert Choi
Director, Exempt Organizations
Rulings & Agreements

Enclosure
Notice 437
Redacted Proposed Adverse Determination Letter
Redacted Final Adverse Determination Letter



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Date: May 19, 2008

Contact Person:

Identification Number:

UI.I.L.: 501.06-01

Contact Number:

FAX Number:

Employer Identification Number:

Legend:

A =

Dear :

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code. You applied for recognition of exemption under section 501(c)(6) as a business league. Based on the information submitted, we have concluded that you do not qualify for exemption under section 501(c)(6). The basis for our conclusion is set forth below.

You were organized as a Limited Liability Company under the laws of the State of A on November 21, 2005. Your filed Articles of Organization provide that you were organized for business networking and educational purposes.

Your bylaws provide the following statements:

- You are an organization of business people dedicated to the ideals of bettering their careers through the exchange of business leads. One member represents each occupation and conflicts of interest are not allowed.
- Your definition of a Lead is a person or company who is interested in a specific service or product and is expecting a call from (one of your) members. A Lead is further defined as a contact between two members or when one member generates a contact between another member and a non-member, which could potentially lead to a business transaction.
- Your goal shall be to exchange business leads and extend loyalty to other members.
- Your membership shall consist of men and women of good character and community standing.
- Your membership shall be composed of two categories listed on the official membership category list.
- A member may only control and promote one of these categories.
- Prospective members must attend two consecutive meetings and submit application to the Membership Chairperson. Prospective members will not attend the third

meeting, where a written membership vote will be taken. Three no votes shall be sufficient to deny an applicant membership.

- The only exception to the accepting of the no votes as final, is when the Board of Directors decides, in a quorum vote, that the no votes were for the purpose of keeping a prospective member out for the purpose of saving category coverage for a member who is not holding that category, or for any type of religious, racial, or sexual bias.
- If two people apply for the same category within a two-week period, each will speak the third week. A five minute presentation by each is required at that meeting. Ballots will be passed and the person receiving the majority of written votes will become the member.
- A membership may be owned individually or by a company.
- Members are required to sign and abide by the following Commitment which includes providing a minimum of nine leads per quarter to any member.

Your LLC Member Control Agreement provides for a Lead Master as one of your seven officers and managers. Your Limited Liability Company Operating Agreement states that you are managed by these seven managers, who shall be responsible for the management of your business and affairs. Your bylaws provide that the Lead Manager shall provide standard lead forms to be used by members for all leads, and shall monitor the quality of leads, track the revenues generated by each member, and provide a written monthly report to the group.

In your application, you state that your activities consist of weekly member meetings lasting 75 – 90 minutes. This includes approximately 15 minutes of member and guest networking prior to the start of the meeting. During this time, two members display their business information at exhibit tables. During the meeting, two members each make a 10-minute presentation on their business products or services. The exhibit tables and presentations are designed to educate your membership about the exhibitors' businesses so members can provide business leads to each other. During the last 20 – 30 minutes of the meeting, each member passes leads to other members and presents a "commercial" for his/her business. Each quarter, you host a business mixer where you invite guests working in business categories not represented in your membership. Your goal is to gain new members and to promote your group to the community.

You also state that you presently have 24 membership units outstanding. These units were purchased by members for cash and you state that you have no intention to pay dividends on these membership units. You state that there is only class of membership with each membership unit having one vote. Membership is open to anyone of good character and community standing working in an occupational classification not already taken by an existing member.

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. An association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated.

Rev. Rul. 59-391, 1959-2 C.B. 159, holds that an organization whose membership is restricted to individuals, firms, associations, and corporations, each of which represents a different trade, business, occupation, or profession does not qualify for exemption under section 501(c)(6) of the Code. The organization was created for the purpose of exchanging information on business prospects and has no common business interest other than a mutual desire to increase the individual sales of members. The revenue ruling also holds that since the organization actively requires that its members give preference to one another in business transactions, for their mutual and exclusive benefit, it is not considered to be the type of an organization for which an exemption from tax was intended.

Rev. Rul. 67-175, 1965-1 C.B. 139, describes an organization that subsidizes the prosecution of a lawsuit for an injunction to prevent air pollution of a region, which does not cause an organization of growers and processors of agricultural products to lose its exempt status under section 501(c)(6) of the Code. The organization is considered to be promoting the common business interest of the members of the organization and the activity is directed toward the improvement of business conditions in a particular line of business.

Rev. Rul. 68-265, 1968-1 C.B. 265, defines a particular service for the purposes of section 501(c)(6) of the Code as including an activity that serves as a convenience or economy to members of the organization in the operation of their own businesses. See also Rev. Rul. 68-264, 1968-1 C.B. 264.

Rev. Rul. 73-411, 1973-2 C.B. 180, in discussing the exempt status of a shopping center merchants' association under section 501(c)(6) of the Code, describes in detail the history of section 501(c)(6) and the types of organizations described therein. In the case of a chamber of commerce or similar organization, the common business interest required under section 1.501(c)(6)-1 of the regulations is usually the general economic welfare of a community. Membership is voluntary and open generally to all business and professional men and women in the community. The revenue ruling states that it has been accepted that an organization seeking exemption from federal income tax under section 501(c)(6) as a chamber of commerce or board of trade must be one whose efforts are directed at promoting the common economic interest of all the commercial enterprises in a given trade community. The revenue ruling also defines trade associations or business leagues as similar to chambers of commerce or boards

of trade, except that they serve only the common business interests of the members of a single line of business or of the members of closely related lines of business within a single industry.

Rev. Rul. 74-81, 1974-1 C.B. 135, holds that a nonprofit organization formed to promote the business welfare and interest of persons engaged in the contracting trade and related industries and whose principal activity is to provide its members with group workmen's compensation insurance is not entitled to exemption under section 501(c)(6) of the Code. The revenue ruling concludes that by providing group workmen's compensation insurance for its members, the organization relieves the members of obtaining this insurance on an individual basis, resulting in a convenience in the conduct of their businesses. Therefore, the organization is rendering particular services for individual persons as distinguished from the improvement of business conditions in the contracting and related industries generally.

Rev. Rul. 74-147, 1974-1 C.B. 136, describes an organization whose members represent diversified businesses that own, rent, or lease one or more digital computers produced by various manufacturers, without regard to identity of the manufacturer of any such computer. The sole activity of the organization mentioned in the revenue ruling is the holding of semi-annual conferences, at which operational and technical problems relating to computer use are discussed. The revenue ruling concludes that the organization's primary objective, provision of a forum for the exchange of information which will lead to the more efficient utilization of computers by its members and other interested users, improves the overall efficiency of its members' business use of computers and qualifies for exemption under section 501(c)(6) of the Code.

Rev. Rul. 83-164, 1983-2 C.B. 95, holds that an organization whose members represent diversified businesses that own, rent, or lease computers produced by a single computer manufacturer does not qualify for exemption under section 501(c)(6) of the Code. The organization's primary activity is promoting the common business interest of users of one particular brand of computers. The revenue ruling also defines a "line of business" as either an entire industry or all components of an industry within a geographic area.

In National Muffler Dealers Ass'n v. U.S., 440 U.S. 472 (1979), the Supreme Court held that an organization whose membership consisted of the franchisees of one brand of muffler did not constitute a line of business within the meaning of section 501(c)(6) of the Code because a single brand represented only a segment of an industry.

The information you have submitted fails to establish that the individuals you classify as members are in a common line of business for purposes of section 501(c)(6) of the Code, which requires more than a finding that the individuals or organizations are engaged in a business. Your membership, the only requirement for which is good character, community standing, and working in an occupational classification different from other members, does not appear to represent either a specific industry or various professions within a common business field. Your membership is not comprised of either an entire industry, or all components of an industry within any particular trade community.

Since you are not structured along particular industry or business lines, your right to exemption under section 501(c)(6) of the Code, if any, must rest on your characterization as a chamber of commerce of similar organization. As discussed and made clear in Rev. Rul. 73-411, supra, membership in a section 501(c)(6) chamber of commerce or similar organization is voluntary and open generally to all business and professional men and women in the community. You are not serving the common business interests of all the professional men and women in the community, but rather you are serving the individual interests of your members through personal business leads. This activity is important enough to you to warrant one of your Board Members to be in charge of such leads, and your members are required to provide a minimum number of leads every meeting. Your bylaws even require each of your members to provide a minimum of nine leads per quarter. In this manner, your structure provides personal business benefits to the individual entities receiving leads.

Any benefit you provide in general to businesses in the area, as opposed to providing benefits to individual persons or entities, is not evident in your activities, as it is in Rev. Rul. 67-175, supra. Thus, you are lacking the essential element of representation of a line of business within the meaning of section 501(c)(6) of the Code. Therefore, you are not considered to be a trade association, business league, or chamber of commerce within the meaning of section 501(c)(6), which defines trade associations or business leagues as similar to chambers of commerce or boards of trade, except that they serve only the common business interests of the members of a single line of business or of the members of closely related lines of business within a single industry.

Your primary activity appears to be the holding of weekly membership meetings. One of the primary activities performed at the meetings, and one of the reasons for your meetings, appears to be the passing of leads from each member to other members and the presentation of a "commercial" for a member's business. This activity is considered to be advertising, which is a particular service within the meaning of section 501(c)(6) of the Code. See Rev. Rul. 68-265, supra.

In addition, your activities are described in Rev. Rul. 74-81, supra, as rendering particular services for individual persons as distinguished from the improvement of business conditions in an industry generally. Since this activity of rendering particular services for individual persons is your primary activity, you are not described in section 501(c)(6) of the Code pursuant to section 1.501(c)(6)-1 of the regulations.

Your program is similar to that of the organization described in Rev. Rul. 59-391, supra, in that the sole purpose your members appear to have in common is a mutual desire to increase their own individual businesses. Also, your membership is restricted to one member from each occupational classification. The basic holding in Rev. Rul. 59-391 is that the participants have no common business interest other than a mutual desire to increase sales and that this is not sufficient to establish a common line of business for the purposes of section 501(c)(6) of the Code. Similarly, your membership is not made up of persons with a common business interest within the meaning of section 501(c)(6). We have concluded that the holding in Rev. Rul. 59-391 applies to you and therefore you do not qualify for exemption under section 501(c)(6).

As discussed and made clear in Rev. Rul. 73-411, supra, membership in and enjoyment of privileges in an organization exempt under section 501(c)(6) of the Code is not to be restricted or limited to a select number of entities within the described community or industry. Membership in a trade association, business league, or a chamber of commerce, described in section 501(c)(6) is both voluntary and open generally to all entities within a particular line of business or closely related lines of business. Your membership is restrictive in a manner similar to the organization discussed in Rev. Rul. 59-391, supra, because you do not permit two persons of the same occupational category to be your members, and any three of your current members can preclude a prospective member from membership. For this reason, your membership is not considered to be open generally to all business men and women in your community within the meaning of Rev. Rul. 73-411, and is not within the intendment of section 501(c)(6). You are not similar to the organization described in Rev. Rul. 74-147, supra, because your purpose is to promote your member's personal interests through leads and loyalty only, rather than providing, as an example, for the exchange of general information for the benefit of common business interests within the meaning of section 501(c)(6).

It is clear that your activities are geared toward a particular group of businesses in the same manner as the organization denied exemption under section 501(c)(6) of the Code in Rev. Rul. 83-164, supra. By directing your activities solely to this group, you are improving business conditions only for this group, not to an industry as a whole or to the general business of the area.

As stated above, one of your important activities is the furthering the individual business interests of your members through the provision of leads from one member to another. These individual business interests, moreover, are in competition with the same business interests for other similar organizations in your business area. One of the key considerations for exemption under section 501(c)(6) of the Code is whether your activities give a competitive edge to your special programs as opposed to other similar special programs carried on by similar organizations. The fact that your benefits are available only to your members, and that your bylaws preclude more than one member in a particular occupation, shows that you benefit only one segment of any particular industry. Only your members can take advantage of the leads that are required to be passed between your members. Non-members do not have any access to these leads. Your members are in direct competition with other business persons in your area involved in the same occupations, and persons who are not admitted to your membership derive no benefit although they are in the same industry in the same area. As discussed in Rev. Rul. 83-164 and National Muffler Dealers Ass'n v. U.S., both supra, benefits essentially for only a particular segment of an industry precludes exemption under section 501(c)(6) of the Code.

These reasons preclude your exemption as a trade association, business league, or chamber of commerce or similar organization under section 501(c)(6) of the Code. Accordingly, for these reasons, you do not qualify for exemption as an organization described in section 501(c)(6) of the Code and you must file federal income tax returns.

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit

the statement, signed by one of your officers, within 30 days from the date of this letter. We will consider your statement and decide if the information affects our determination.

Your protest statement should be accompanied by the following declaration:

Under penalties of perjury, I declare that I have examined this protest statement, including accompanying documents, and, to the best of my knowledge and belief, the statement contains all the relevant facts, and such facts are true, correct, and complete.

You also have a right to request a conference to discuss your protest. This request should be made when you file your protest statement. An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you. If you want representation during the conference procedures, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. For more information about representation, see Publication 947, *Practice before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications.

If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to this address:

Internal Revenue Service
TE/GE

1111 Constitution Ave, N.W.
Washington, DC 20224

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

Robert Choi
Director, Exempt Organizations
Rulings & Agreements